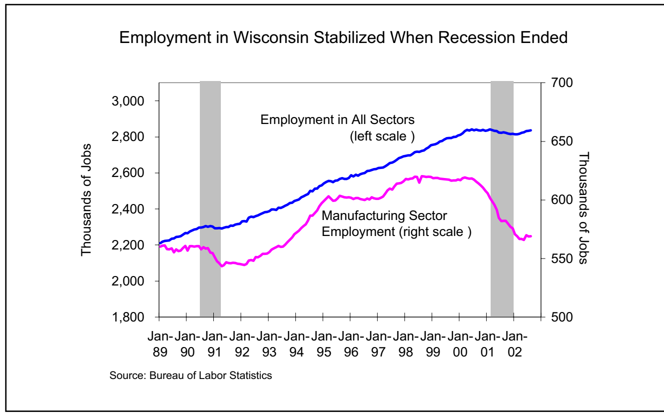
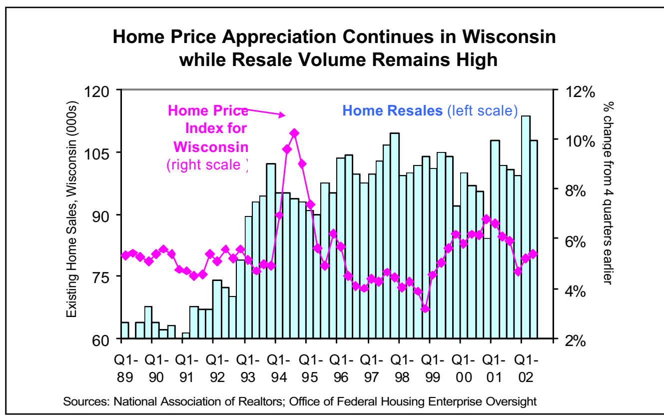
FDIC State Profile

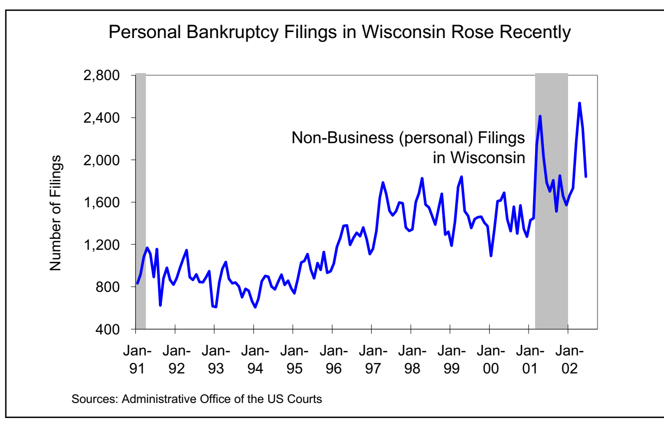
WINTER 2002

Wisconsin

Recovery from the 2001 recession is under way. Total employment in Wisconsin is near its previous peak, although employment in the manufacturing sector remains noticeably below its pre-recession level.







- Labor market indicators are a proxy for overall economic activity in the state. Wisconsin's unemployment rate has hovered around 5 percent since May 2002, compared with a rate near 3 percent in 1999 before economic weakening and the 2001 recession got under way.
- Net layoffs by manufacturers in Wisconsin apparently ended earlier this year. Even so, the level of manufacturing employment is 8 percent (nearly 50,000 jobs) below its early 2000 peak (see top chart). Eighty percent of this drop was among producers of durable goods such as industrial machinery and equipment, motor vehicles and parts, and fabricated metal products.
- The state's housing market remains healthy (see middle chart). Single-family home resales rose during the 2001 recession, and additional gains occurred in the first half of 2002. Falling mortgage rates since mid-2000 undoubtedly contributed to the strength of sales. At the same time, home price appreciation slowed somewhat but remained above 5 percent recently.
- Higher personal bankruptcies (see bottom chart) are an aftermath of the recession as well as legislative proposals that triggered some filings in anticipation of possible changes.
- Higher vacancy rates for commercial properties in *Milwaukee* reflect that new supply (from construction and previously leased space) during the first half of 2002 exceeded demand in the apartment, retail, warehouse, and hotel segments. Net absorption was slightly positive the office market, where the vacancy rate remains above 15 percent.
- The impacts of recent economic developments vary considerably across the state, given that some metropolitan areas have concentrations in only a few industries—for example, industrial machinery, insurance, forest and paper products, or government. For manufacturing-dependent areas, the domestic recovery may foster better conditions ahead. In agricultural areas, the short-term outlook suggests dairy and cranberry producers will continue to face weak prices. Other sectors face industry-wise restructuring, while governments are responding to growing deficits. In the aggregate, the state and national economies in early October appeared to be on track for continuing expansion, but the recovery is vulnerable to shocks that could arise at home or abroad.

Wisconsin's banks and thrifts have performed well during the last year. Profitability has strengthened, yet some asset quality concerns persist.

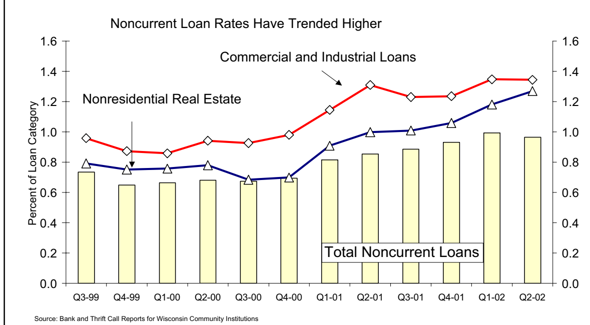
- With a median return on assets ratio of 1.20 percent as of June 30, 2002, Wisconsin's insured institutions are highly profitable. The improvement seen in 2002 can be traced to the institutions benefiting greatly from the steeply sloped yield curve environment. Funding costs dropped significantly more than asset yields during the last year, enabling Wisconsin banks and thrifts to reverse net interest margin compression and boost profitability substantially. Wisconsin's community banks were able to realize better margin improvement than the rest of the *Chicago* Region.

Margins and Profitability Have Rebounded Among Wisconsin's Institutions

Median Ratio	Jun-97	Jun-98	Jun-99	Jun-00	Jun-01	Jun-02
Net Interest Margin	4.23	4.12	3.96	3.95	3.76	4.10
Return on Assets	1.16	1.15	1.15	1.03	1.01	1.20
Tier 1 Capital	9.53	9.42	9.23	9.22	9.10	9.32

Source: Bank and Thrift Call Reports

- Capital and reserve levels have improved during the last year, providing cushion for any asset quality deterioration that may occur in the future. Median Tier 1 leverage capital levels are relatively high in Wisconsin, compared to other states in the Region, and have increased 22 basis points over the 12 months ending June 30, 2002.
- Much like elsewhere in the Region, allowance for loan loss (ALLL) levels to total loans have risen. As of June 30, 2002, the median level of ALLL to total loans was 1.23 percent, slightly higher than a year ago. However, growth in noncurrent loans (loans 90+ days past-due or in nonaccrual status) has led to declining reserve coverage of noncurrent loans. Positively, earnings of Wisconsin's banks are relatively strong compared to the remainder of the region, and provide further coverage should asset quality weaken.
- Total noncurrent loan percentages for community institutions[1] have deteriorated during the last few years (see chart). Much of the deterioration was driven by noncurrent nonresidential real estate and commercial and industrial lending.



- The severity of asset quality concerns in Wisconsin has generally been less than elsewhere in the Region. Community bank net chargeoff levels have stayed at relatively low levels. Through June 30, 2002, annualized net chargeoffs were low at 12 basis points, virtually unchanged from recent year levels.
- Loan portfolios among Wisconsin community banks have shifted considerably during the last several years. One-to-four family mortgage lending remains the largest category, but has declined as banks have increased nonresidential real estate lending. This shift to higher-yielding loans has likely contributed to the aforementioned margin improvements, but has increased potential credit risk as well.

[1] Insured institutions with less than $1B in assets, excluding de novos and specialty banks.

Wisconsin at a Glance

General Information	Jun-02	Jun-01	Jun-00	Jun-99	Jun-98	Jun-97
Institutions (#)	320	327	357	386	396	412
Total Assets (in thousands)	106,381,146	99,651,620	94,800,242	102,380,706	97,246,991	92,917,117
New Institutions (# <3 years)	12	15	11	11	12	12
New Institutions (# <9 years)	31	32	27	24	21	20
Capital						
Tier 1 Leverage (median)	9.32	9.10	9.22	9.23	9.42	9.53
Asset Quality						
Past-Due and Nonaccrual (median %)	2.26%	2.10%	1.59%	1.77%	1.96%	1.99%
Past-Due and Nonaccrual ≥ 5%	35	37	13	20	25	29
ALLL/Total Loans (median %)	1.23%	1.18%	1.19%	1.26%	1.26%	1.23%
ALLL/Noncurrent Loans (median multiple)	1.41	1.52	2.29	2.09	1.99	1.89
Net Loan Losses/Loans (aggregate)	0.22%	0.19%	0.11%	0.19%	0.20%	0.18%
Earnings						
Unprofitable Institutions (#)	11	14	12	9	8	10
Percent Unprofitable	3.44%	4.28%	3.36%	2.33%	2.02%	2.43%
Return on Assets (median %)	1.20	1.01	1.03	1.15	1.15	1.16
25th Percentile	0.83	0.75	0.78	0.82	0.87	0.92
Net Interest Margin (median %)	4.10%	3.76%	3.95%	3.96%	4.12%	4.23%
Yield on Earning Assets (median)	6.79%	8.01%	7.96%	7.69%	8.17%	8.19%
Cost of Funding Earning Assets (median)	2.68%	4.25%	4.07%	3.74%	4.04%	4.00%
Provisions to Avg. Assets (median)	0.11%	0.10%	0.09%	0.08%	0.10%	0.10%
Noninterest Income to Avg. Assets (median)	0.56%	0.53%	0.52%	0.54%	0.57%	0.51%
Overhead to Avg. Assets (median)	2.65%	2.66%	2.60%	2.64%	2.69%	2.71%
Liquidity/Sensitivity						
Loans to Deposits (median %)	84.36%	86.67%	86.90%	81.56%	80.97%	80.56%
Loans to Assets (median %)	71.00%	72.52%	72.21%	68.87%	68.99%	68.86%
Brokered Deposits (# of Institutions)	131	142	155	133	130	120
Bro. Deps./Assets (median for above inst.)	3.09%	2.65%	3.01%	2.59%	2.48%	2.44%
Noncore Funding to Assets (median)	15.05%	15.51%	15.75%	11.85%	11.41%	10.55%
Core Funding to Assets (median)	73.18%	72.92%	73.04%	77.02%	77.16%	77.71%
Bank Class						
State Nonmember	205	211	217	218	230	239
National	48	49	51	57	58	60
State Member	26	26	49	68	62	65
S&L	8	8	11	12	13	13
Savings Bank	17	14	9	9	10	11
Mutually Insured	16	19	20	22	23	24

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
No MSA	176	18,107,077	55.00%	17.02%
Milwaukee-Waukesha WI PMSA	46	54,567,856	14.38%	51.29%
Madison WI	23	7,233,457	7.19%	6.80%
Appleton-Oshkosh-Neenah WI	12	3,239,996	3.75%	3.05%
Wausau WI	10	1,449,069	3.13%	1.36%
Minneapolis-St Paul MN-WI	8	1,005,319	2.50%	0.95%
Janesville-Beloit WI	8	1,011,921	2.50%	0.95%
Eau Claire WI	8	953,992	2.50%	0.90%
La Crosse WI-MN	7	3,598,224	2.19%	3.38%
Green Bay WI	7	11,253,710	2.19%	10.58%
Sheboygan WI	5	577,547	1.56%	0.54%